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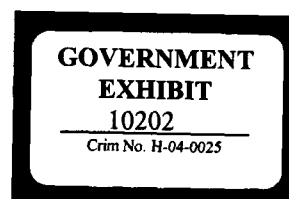
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Date: 10/12/2001 04:54 AM
Ken G. Rue
Subject: Wessex Valuation Review - updated 10/12
Attachments: Wessex Valuation Review.doc

Based on additional data gathered last night and review of updated model
received late yesterday

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Wessex Valuation Review

Discounted Cash Flow Analysis

<u>Wessex Only Results</u>	<u>DR</u>	<u>GR</u>	<u>Equity Value</u>	<u>DR</u>	<u>GR</u>	<u>Equity Value</u>
Company Projections (levered)	9.0%	3%	\$575	11.0%	3%	\$385
Company Projections (unlevered)	6.5%	3%	\$1,048	7.5%	3%	\$247

1. Jon Oats (Wessex Audit, Bristol) reviewing the projections for reasonableness
2. Reasonable evidence presented by Wessex to support change in cash flows from proxy valuations
3. Wasserstein & Salomon Smith Barney used unlevered discount rates from 6.5% to 7.5%; rates have decreased
4. Additional value may be created from growth strategy

Public Market Multiples

	<u>EBITDA Multiple</u>	<u>Acquisition Premium</u>	<u>Adjusted Multiple</u>	<u>Wessex EBITDA</u>	<u>Enterprise Value</u>	<u>Equity Value</u>
Anglian Water	8.76	35%	11.8	\$250	2,956	\$1,026
Pennon Group	7.94	35%	10.7	\$250	2,680	\$750
United Utilities	7.66	35%	10.3	\$250	2,585	\$655
Kelda Group	7.57	35%	10.2	\$250	2,555	\$625
Severn Trent	7.42	35%	10.0	\$250	2,504	\$574
Average:						\$726

1. Assume \$1.93 billion in debt and preferred stock
2. Premium based on Thames and American Water Works transactions

Acquisition Multiples

<u>Transaction</u>	<u>EBITDA Multiple</u>	<u>Equity Value</u>	<u>RAB Multiple</u>	<u>Equity Value</u>
Thames/RWE (11/00)	9.0	\$320	1.22	\$468
American Water Works/RWE (9/01)	11.9	\$1,046	N/A	N/A

1. Stock prices have increased since the Thames transaction

